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February 17, 2009

#### **AGENDA ITEM 4**

**TO: MEMBERS OF THE PERFORMANCE AND COMPENSATION COMMITTEE**

**I. SUBJECT:** Changes in Senior Portfolio Manager and Portfolio Manager Performance Plans

**II. PROGRAM:** Administration

**III. RECOMMENDATION:** This is an Information Item

**IV. ANALYSIS:**

The Chief Executive Officer has been delegated the review of quarterly status reports and approval of changes in performance plans for Senior Portfolio Manager and Portfolio Manager positions. Changes are to be reported through the Performance and Compensation Committee to the Board.

The purpose of this item is to report changes that the Chief Investment Officer and the Chief Executive Officer have approved in the performance plans of two Senior Portfolio Managers and four Portfolio Managers. None of the changes delays the completion of performance measures beyond the end of the fiscal year. The changes are summarized in the attachment to this item. In addition, as recommended by the committee, all performance plans have been amended to include a Diversity component in the Leadership performance measure.

In accordance with the program policies and procedures, changes of the quantitative measures have been reviewed for clarity by the investment consultant. The incumbents have been made aware of the changes.

**V. STRATEGIC PLAN:**

Under Goal V of the Strategic Plan, CalPERS is committed to sustaining a high performance work culture. This can be accomplished at the highest executive levels through the establishment of methods that provide broad flexibility in the recruitment, retention and compensation of key personnel.

**VI. RESULTS/COSTS:**

The establishment of incentive plan performance measures is critical to the management of a competitive compensation program for executives at the highest levels of the organization. This, in turn, is critical to the success of the organization. The cost of performance awards that might arise from the recommendations in this item will be funded from existing resources.

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CHRIS O'BRIEN, Chief  
Human Resources Division

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JOHN HIBER  
Assistant Executive Officer, Administrative Services Branch

Attachment

**Summary of Approved Changes in the Performance Plans  
of Senior Portfolio Managers and Portfolio Managers**  
First and Second Quarter, 2008-2009 Fiscal Year

Position	Change and Reason
Senior Portfolio Manager, Emerging Managers & Environmental Programs	<p>Typographical error in factor title changed from <i>Historical 5 Year Record</i> to <i>Historical 4 Year Record</i>.</p> <p>Customized composite and benchmark identifiers added to <i>Fund of Funds Managers</i> performance factor.</p>
Senior Portfolio Manager, Fixed Income	<p><i>CalPERS Internal Governments</i> performance factor deleted, as the objective of the Government portfolio was changed to duration management of the Fixed Income portfolio</p> <p>Weight re-distributed to accommodate deletion of the Internal Governments factor (5%), in the following performance factors:</p> <ul style="list-style-type: none"> <li>• <i>Other Managed Fixed Income Funds</i> (+2%)</li> <li>• <i>Active International Fixed Income Managers</i> (+1%)</li> <li>• <i>Internal Passive Currency Overlay Management</i> (+1%)</li> <li>• <i>Pilot Internal Active Currency Overlay Management</i> (+1%)</li> </ul>
Portfolio Manager, Asset Allocation / Risk Management	Correction made to the benchmark identifier of the <i>Inflation-Linked Asset Class (ILAC)</i> performance factor.
Portfolio Manager, Fixed Income	Typographical error in the incentive schedule of the <i>CalPERS Asset Based Lending</i> performance factor has been corrected.
Portfolio Manager, Quantitative Strategies	<p>Risk Managed Absolute Return Strategies performance factor deleted, as employee is no longer involved in the performance measure.</p> <p>Adjustment made in the weight of the <i>Alpha Strategies: Domestic Long/Short Market Neutral</i> (+10%) performance factor to accommodate the deletion of the <i>Risk Managed Absolute Return Strategies</i>.</p>
Portfolio Manager, Operations, Performance and Technology	<i>Internal Controls Structure</i> performance factor has been updated with finalized performance measure language.